

STATE OF ARIZONA

Joint Legislative Budget Committee

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JOINT LEGISLATIVE BUDGET COMMITTEE

Wednesday, May 11, 2005

8:30 a.m.

House Hearing Room 4

MEETING NOTICE

- Call to Order
- [Approval of Minutes of March 4, 2005.](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
- 1. ATTORNEY GENERAL
 - A. [Review of Intended Use of Monies in the Antitrust Enforcement Revolving Fund.](#)
 - B. [Review of Allocation of Settlement Monies.](#)
- 2. [DEPARTMENT OF HEALTH SERVICES - Review of Expenditure Plan from the Vital Records Electronic Systems Fund.](#)
- 3. [DEPARTMENT OF PUBLIC SAFETY - Quarterly Review of the Arizona Public Safety Communications Advisory Commission.](#)

The Chairman reserves the right to set the order of the agenda.
05/05/05

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

March 4, 2005

The Chairman called the meeting to order at 10:40 a.m., Friday, March 4, 2005, in House Hearing Room 3. The following were present:

Members:	Representative Pearce, Chairman	Senator Burns, Vice-Chairman
	Representative Boone	Senator Arzberger
	Representative Biggs	Senator Garcia
	Representative Burton Cahill	Senator Harper
	Representative Gorman	Senator Martin
		Senator Waring

Absent:	Representative Huffman	Senator Bee
	Representative Lopez	Senator Cannell
	Representative Tully	

APPROVAL OF MINUTES

Senator Burns moved that the Committee approve the minutes of December 16, 2004. The motion carried.

DIRECTOR'S REPORT

Mr. Richard Stavneak, Director, JLBC Staff mentioned the JLBC statutory responsibilities. The Committee has 137 different responsibilities, down 11 from last year, due to the fact that there were some old JOBS Pilot Program monitoring responsibilities that the Committee no longer has. They are posted on our Web site.

ADOPTION OF COMMITTEE RULES AND REGULATIONS –

Senator Burns moved that the Committee adopt the Rules and Regulations as presented. The motion carried.

EXECUTIVE SESSION

Senator Burns moved that the Committee go into Executive Session. The motion carried.

At 10:45 a.m., the Joint Legislative Budget Committee went into Executive Session.

Senator Burns moved that the Committee reconvene into open session. The motion carried.

At 11:50 a.m. the Committee reconvened into open session.

Senator Burns moved that the Committee approve the recommended settlement proposals by the Attorney General's Office in the cases of:

Panetta/Box v. State of Arizona

Mendez v. State of Arizona

Dee v. State of Arizona

The motion carried.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM (AHCCCS) – Review of Comprehensive Medical and Dental Program Capitation Rate Changes.

Mr. Stefan Shepherd, JLBC Staff, presented the Comprehensive Medical and Dental Program (CMDP) capitation rate changes.

There was no discussion on this item.

Senator Burns moved that the Committee give a favorable review to the Arizona Health Care Cost Containment System, Comprehensive Medical and Dental Program Capitation rate changes, retroactive to January 1, 2005 and effective through December 31, 2005. The proposed rates represent an increase above the current rates of approximately 16%. The motion carried.

DEPARTMENT OF HEALTH SERVICES – Review of Developmental Disabilities Capitation Rate Changes.

Mr. John Malloy, JLBC Staff presented the Department of Health Services request that the Committee review the Developmental Disabilities (DD) Title XIX Behavioral Health capitation rate changes.

There was no discussion on this item.

Senator Burns moved that the Committee give a favorable review to the Department of Health Services change in capitation rates for the Developmentally Disabled Title XIX Behavioral Health population, with the stipulation that the favorable review did not constitute an endorsement of a supplemental request. The rates are retroactive to January 1, 2005 through June 30, 2006. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES) –

A. Review of Long Term Care Capitation Rate Changes

Mr. Stefan Shepherd, JLBC Staff, presented the proposed Developmental Disabilities Long Term Care capitation rate changes of 3.18%.

There was no discussion on this item.

Senator Burns moved that the Committee give a favorable review to the Department of Economic Security Developmental Disabilities Long Term Care Program capitation rate changes of 3.18%. The motion carried.

B. Review of Expenditure Plan for Discretionary Workforce Investment Act Monies.

Mr. John Malloy, JLBC Staff presented the Department of Economic Security expenditure plan for \$2,384,000 in discretionary federal Workforce Investment Act (WIA) monies received by the state for FY 2005. Mr. Malloy referenced the chart on page 4 of the memo showing the programs to be reviewed and the programs that have been favorably reviewed by the Committee.

Senator Harper asked if there are only certain things that the monies could be used for. Mr. Malloy stated that these monies are discretionary monies recommended on the Governor's Council on Workforce Policy on areas where the state can improve workforce development activities in the state.

Representative Gorman asked if we ever find out where the money goes. Mr. Malloy stated that it is part of the recommendation and we are asking for some performance measures to be submitted by the department.

Senator Burns moved that the Committee give a favorable review of the request with the provision that the agency provide performance measures for the approximately \$1.2 million in new discretionary programs included in the agency's expenditure plan. The motion carried.

ATTORNEY GENERAL – Review of Allocation of Settlement Monies.

Ms. Kim Hohman, JLBC Staff presented the review of the Attorney General (AG) settlement monies in which the state will receive more than \$100,000. In the settlement with El Paso Natural Gas Company, the company allegedly violated state anti-trust laws by manipulating the supply of natural gas resulting in increased costs to Arizona consumers. The company agreed to pay a total of \$78.4 million for a variety of purposes specified in the agreement. The JLBC Staff recommends a favorable review of the allocation plan for this settlement and also recommends that the Committee ask the Attorney General why they believe it is the most appropriate agency to distribute the \$250,000 that was received for emergency response training.

Ms. Nancy Bonnell, Antitrust Unit Chief, Attorney General Office said when they represent the state in settlements, the state receives restitutions for settlements. A plan is developed, it is submitted to the court and the court approves the plan for specific purposes. The plan for the Salton case was approved by the court and submitted by the Attorney General's Office to benefit consumers for nutritional and health needs.

Senator Burns asked why the AG would be better qualified to distribute the \$250,000 than the Department of Emergency and Military Affairs (DEMA), for example. Ms. Bonnell stated they will be having conversations with DEMA.

Chairman Pearce stated that the distribution of the money is a political process because it is based on the recommendation of the AG and the court.

Ms. Bonnell stated the outside counsel is compensated from the appropriated Antitrust Enforcement Revolving Fund which funds investigations and prosecutions.

Senator Burns moved that the Committee give a favorable review to the allocation plan for monies received from the El Paso Natural Gas settlement agreement. The motion carried.

DEPARTMENT OF PUBLIC SAFETY – Quarterly Review of the Arizona Public Safety Communications Advisory Commission.

Mr. Martin Lorenzo, JLBC Staff presented the Department of Public Safety (DPS) request that the Committee review their FY 2005 second quarter expenditures and progress for the Public Safety Communication Advisory Commission (PSCC) statewide interoperability design project. Second quarter expenditures totaled approximately \$47,800 out of \$5,000,000 in available funding.

Senator Waring asked how long they have to spend the \$5 million. Mr. Lorenzo stated the \$2 million was appropriated and \$3 million was non-lapsing.

Senator Waring indicated he understood that the monies were for the study of the design and what they wanted to buy, instead of actually buying things.

Chairman Pearce asked why this Commission needs a vehicle. Mr. Lorenzo stated that the 2 vehicles would be used for PSCC activities.

Chairman Pearce expressed concern with certain positions inheriting the right to have a car to take home.

Chairman Pearce asked for some analysis on these state cars. Mr. Lorenzo stated the purpose of the 2 vehicles is strictly for activities within the PSCC, not for take home vehicles.

Chairman Pearce asked why we furnish cars vs. using the State Motor Pool. Curt Knight, Executive Director of the Public Safety Communications Committee, Department of Public Safety said the vehicles had been envisioned initially in the budget and approved in previous presentations by the Legislature. The Motor Pool is somewhat remote from their offices, which puts some limitations on them. It is expected that we will equip the vehicles similar to a first responder's public safety vehicle.

Chairman Pearce asked why using the Motor Pool would not work. Mr. Knight said that the Motor Pool could possibly work.

In response to Senator Waring, Mr. Knight stated that the design completion based on the initial timeline, which has not been adjusted, would be in mid 2008. At that point, we would be ready to go to bid.

Senator Burns moved that the Committee give a favorable review to the FY 2005 2nd quarter expenditures report with the exception of the purchase of two automobiles. The motion carried.

DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS – Report on Homeland Security Funding.

Mr. Brad Regens, JLBC Staff presented the report on Homeland Security Funding. In the current FY 2005 budget there was a requirement that the Governor's Office of Homeland Security (OHS) report to the Committee on the expenditure of 2004 and 2005 Homeland Security monies.

Senator Arzberger expressed concern that there is no money spent for border security.

Senator Harper said he spoke with the Department of Emergency and Military Affairs and the money has been spent to train people to react to possible terrorism, rather than prevent terrorism.

Frank F. Navarrete, Director, Office of Homeland Security said that border security is a federal issue.

Senator Arzberger requested that some funds go to the officers at the border.

Further discussion continued regarding the Office of Homeland Security.

Chairman Pearce requested OHS to submit a quarterly report on FFY 2003, FFY 2004 and FFY 2005 allocations and expenditures for both local and state agency awards. The report should include a narrative description detailing each project awarded funding. This narrative should identify the goals and objectives of each project and indicate what progress has been made on each project since the last report.

Mr. Navarrete said they would provide the quarterly report.

ARIZONA COMMUNITY COLLEGES – Report of Chairmen of Subcommittee on Dual Enrollment.

Mr. Jake Corey, JLBC Staff, presented the Community Colleges dual enrollment programs report. Statute directs the community college districts to report to the Committee on their dual enrollment programs. When the report is received, the Committee is required to convene an ad hoc committee to review the manner in which community college dual enrollment courses are provided. The Chairmen of the ad hoc committee identified 3 issues of concern.

There was no discussion on this item and no Committee action was required.

GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING – Report on Federal Revenue Maximization Initiative.

Mr. Stefan Shepherd, JLBC Staff, said this is a quarterly report from the Office of Strategic Planning and Budgeting (OSPB) on the status of the Federal Revenue Maximization Initiative (RevMax).

There was no discussion on this item and no Committee action was required.

Chairman Burns adjourned the meeting at 1:30 p.m.

Respectfully submitted:

Janet Belisle, Secretary

Richard Stavneak, Director

Representative Russell Pearce, Chairman

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DATE: May 5, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Nick Klingerman, Assistant Fiscal Analyst

SUBJECT: Attorney General – Review of Intended Use of Monies in the Antitrust Enforcement
Revolving Fund

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General (AG) has notified the Committee of its intended uses of Antitrust Enforcement Revolving Fund monies in excess of \$183,600.

Recommendation

The JLBC Staff recommends the Committee give a favorable review of the intended expenditures as they are consistent with the statutorily allowed usage of Antitrust Fund monies.

Analysis

The General Appropriation Act contains a footnote that states all revenues received by the Antitrust Fund in excess of \$183,600 are appropriated, but expenditures from the fund are limited to \$750,000 in FY 2005. The footnote further requires that the AG shall not expend monies from the fund in excess of \$183,600 prior to review by the Joint Legislative Budget Committee.

The agency reports that of the available monies in the Antitrust Fund the AG intends to expend \$126,400 in excess of the \$183,600 expenditure limit in FY 2005. This amount will be used for the following purposes:

- \$55,400 for personnel costs. This will fund Personal Services and Employee Related Expenses for 5 staff positions through the remainder of the fiscal year.
- \$46,000 for operating costs. The operating costs are for the support of the Antitrust Unit.
- \$25,000 for multi-state cases. This represents Arizona's share of the investigative and court costs associated with participating in multi-state antitrust cases.

RS/NK:ss

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DATE: May 5, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Nick Klingerman, Assistant Fiscal Analyst

SUBJECT: Attorney General - Review of Allocation of Settlement Monies

Request

Pursuant to a footnote in the General Appropriation Act, the Office of the Attorney General (AG) has notified the Committee of the allocation of monies received from the Semptra Energy Company (Semptra) settlement agreement and the Institute for Financial Advantage Inc. consent judgment.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the allocation plans from the Semptra settlement agreement and the Institute for Financial Advantage Inc. consent judgment. The allocation plan for the Semptra settlement is consistent with A.R.S. § 41-191.01, which relates to the distribution of monies recovered as a result of enforcing antitrust statutes; and the allocation plan for the Institute for Financial Advantage Inc. consent judgment is consistent with A.R.S. § 44-1531.01, which relates to the distribution of monies recovered as a result of enforcing consumer protection or consumer fraud statutes.

Analysis

The General Appropriation Act contains a footnote that requires Joint Legislative Budget Committee review of the allocation or expenditure plan for settlement monies over \$100,000 received by the Attorney General or any other person on behalf of the State of Arizona, and it specifies that the Attorney General shall not allocate or expend these monies until the JLBC reviews the allocations or expenditures. Settlements that are deposited in the General Fund pursuant to statute do not require JLBC review. The AG recently settled 2 cases that will result in the receipt of settlement monies over \$100,000.

(Continued)

Sempra Settlement

During the March 4, 2005 JLBC meeting, the Committee reviewed the El Paso Natural Gas Company settlement agreement. The AG had previously settled with Sempra Energy Company, as part of the suit against the El Paso Energy Company, in August 2004 for \$150,000. These settlement monies were used by outside counsel for litigation expenses related to the El Paso case. With the final resolution of the El Paso case, the AG is reporting on the Sempra settlement and will distribute the monies as follows:

- \$90,500 will be deposited into the General Fund
- \$49,400 for outside legal counsel
- \$10,100 will be deposited into the Antitrust Enforcement Revolving Fund

Institute for Financial Advantage Inc. Consent Judgment

In October 2002, the AG filed a complaint against the Institute for Financial Advantage Inc., their aliases, and their principals alleging that the defendants violated the Arizona Consumer Fraud Act and Telephone Solicitations statutes. Consumers were informed that they were pre-qualified to receive a low-interest credit card, and paid between \$249 and \$529 to receive the credit card. Instead of receiving a low interest credit card, consumers received a list of banks that allegedly provided these credit cards. In March 2005, the AG settled the claims against the defendants for \$142,000. The defendants paid \$100,000 shortly after the settlement and agreed to pay the remaining balance in four quarterly payments beginning July 1, 2005 and ending April 1, 2006. The settlement monies will be distributed as follows:

- \$42,700 to pay restitution to 120 consumers who qualified according to the terms of the consent judgment.
- \$99,300 in civil penalties will be deposited into the Consumer Revolving Fund

RS/NK:ss

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DATE: May 5, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: John Malloy, Fiscal Analyst

SUBJECT: Department of Health Services – Review of Expenditure Plan from the Vital Records
Electronic Systems Fund

Request

Pursuant to Laws 2002, Chapter 160, the Department of Health Services (DHS) requests review of a \$1.4 million plan to spend monies from the Vital Records Electronic Systems Fund to digitize birth and death certificates. Statute requires that a detailed expenditure plan be submitted to JLBC for review prior to the expenditure of monies from this fund for the purchase of new information technology (IT).

At its March 2004 meeting, the Committee favorably reviewed Phase I of the project, which included the expenditure of \$1.4 million for new hardware and software as well as the related costs of automating the state's birth and death certificates. DHS is returning for a review of Phase II of the plan, which is estimated to cost \$1,358,800 from the Vital Records Electronic Systems Fund.

Recommendation

JLBC Staff recommends a favorable review of the expenditure plan. The Committee favorably reviewed Phase I of the department's Digital Record System (DRS) project which is currently underway. Phase II will allow DHS to digitize all birth and death certificates as well as enable the agency to archive vital records in a more efficient manner.

Analysis

Laws 2002, Chapter 160 authorized the creation of a non-appropriated Vital Records Electronic Systems Fund for the purpose of funding a new vital records information system. The fund receives revenues from a fee increase of \$4 on requests for birth and death records. The chapter specifies that DHS must submit a detailed expenditure plan to the Committee for its review after it receives approval from the Government Information Technology Agency (GITA). The department received

approval for this phase of the project from both GITA and the Information Technology Authorization Committee (ITAC) in April 2005.

DHS is proposing to spend \$1,358,800 in FY 2006 from the Vital Records Electronic Systems Fund for the purchase of digital imaging equipment as well as associated IT support to digitize sealed, archived and historical records of birth and death certificates. *(Please see the table on the following page for further detail).* In addition to the expenditures from the Vital Records Electronic Systems Fund, the department will also use \$46,700 in base information technology funding, for total FY 2006 spending of \$1,402,500. Ongoing annual costs for this project starting in FY 2007 are estimated to be \$106,900. Of this amount, \$71,900 would be funded from the Vital Records Electronic Systems Fund and \$35,000 would be from base funds.

Phase II of the project will involve the scanning and indexing of 5.2 million paper birth and death certificates currently in the vault of vital records. The digital images will be used by state and county offices to create certified documents for citizens, to verify information and to provide secure access to records when a court order to unseal is received. Creating digital images of historical records will allow the department to provide faster services to citizens, as it currently can take up to 10 days to locate a physical record. Digitization will also help to preserve original documents and allow citizens to get certified copies of records directly from their county registrar. Birth certificates from 1997 are currently in digitized form while the quality and completeness varies for birth certificates from 1950 to 1996. There are no digitized birth records prior to 1949. Digitized death records are incomplete prior to 2000.

The proposed expenditure plan would also microfilm all new vital records as well as sealed records that need to be properly archived. DHS reports that there are 130,000 vital records and 96,000 sealed records that need to be archived each year. This process will enable DHS to reduce the need for vault space and to preserve the records. The department reports that the Office of Vital Records is out of space to store sealed records.

Phase I of the project related to vital records registration, customer service, and digital document imaging and archiving. The new system included a standard application for certificates to enhance data collection and monitoring and improve the application process for hospitals and other users. Automation of the customer service system will reduce delays and improve information tracking.

Phase II is the final phase in the department's DRS project. The ongoing annual costs for both Phase I and Phase II are expected to be \$443,000, of which \$183,400 will be funded from the Vital Records Electronic Systems Fund and \$259,600 from base funds. The Vital Records Electronic Systems Fund is expected to receive \$850,000 in revenues in FY 2005. Beginning July 1, 2006, A.R.S. § 36-341 requires that the fees that are deposited to the Vital Records Electronic Systems Fund will instead go to the General Fund. JLBC Staff estimates that there will be enough monies in the fund to support the ongoing costs of Phase I and Phase II through FY 2008.

Phase II Expenditure Plan – Vital Records Electronic Systems Fund

<u>Description</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
IT Services ^{1/}	\$1,115,200	\$ 1,500	\$ 1,500
Hardware ^{2/}	123,600	--	--
Software ^{3/}	44,000	--	--
Licensing and Maintenance Fees	72,000	70,400	70,400
Training ^{4/}	<u>4,000</u>	<u>--</u>	<u>--</u>
<i>Subtotal (Phase II)</i>	<i>\$1,358,800</i>	<i>\$ 71,900</i>	<i>\$ 71,900</i>
Phase I Costs (Already Reviewed)	<u>111,500</u>	<u>111,500</u>	<u>111,500</u>
Total (Phase I and Phase II)	\$1,470,300	\$183,400	\$183,400

^{1/} Digitization of historical birth and death certificates as well as the installation and training of digital imaging equipment

^{2/} Digital Imaging Equipment and Database Storage

^{3/} Digital Imaging, Archiving and Database Storage

^{4/} Training provided to UNIX Administrators of DHS' Technical Services Division

RS/JM:ck

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DATE: May 6, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo, Assistant Fiscal Analyst

SUBJECT: Department of Public Safety – Quarterly Review of the Arizona Public Safety
Communication Advisory Commission

Request

Pursuant to Laws 2004, Chapter 281 the Department of Public Safety (DPS) has submitted for review, their FY 2005 third quarter expenditures and progress for the statewide interoperability design project.

Recommendation

This project appears to have fallen behind schedule according to DPS' original timeline submitted to the Committee in June 2004. As a result, the JLBC Staff recommends that the Committee request that next DPS quarterly report include an updated design timeline with specific goals and objectives for completion during FY 2006.

Analysis

Background

Laws 2004, Chapter 275 appropriated \$5 million (of which \$2 million is lapsing) to DPS for design costs of a statewide radio interoperability communication system. Radio interoperability allows public safety personnel from one agency to communicate, via mobile radio, with personnel from other agencies. An interoperable system enhances the ability of various public safety agencies to coordinate their actions in the event of a large-scale emergency as well as daily emergencies. Construction costs of a statewide radio interoperability communication system are estimated to be as high as \$300 million.

Progress through Third Quarter

To date, the commission has focused most of its work on hiring staff and not on developing specific interoperability standards or project standards. Through the third quarter, the PSCC has hired 3 of 9 positions and expended \$358,500 of their \$5 million appropriation. Based on advice from the Government Information and Technology Agency (GITA), the Commission has also entered into a

(Continued)

\$150,000 agreement with an information technology consulting firm to develop a document identifying the mission and objectives of a statewide interoperable communications system. Meanwhile, the PSCC has endorsed the Department of Emergency and Military Affairs' (DEMA) "*Statewide Interoperability Project*." The PSCC quarterly report does not identify the distinct mission of DEMA's project versus the PSCC mission, however, the Commission believes DEMA's project to be "a critical first step in resolving interoperability in Arizona."

As mentioned earlier, the PSCC has only expended \$358,500 of their \$5 million appropriation. Of the \$5 million, \$2 million reverts to the General Fund if unexpended by June 30, 2005. As a result, the PSCC is considering giving an unspecified amount of its lapsing \$2 million for DEMA's "*Statewide Interoperability Project*." The bill creating the PSCC allows the commission to "enter into contracts to assess, design, construct and use public safety communications systems."

Pursuant to Chapter 281, part of the PSCC mission is "the promotion of the development and use of standard based systems." In pursuit of achieving this, the Executive Director has attended various meetings with stakeholders. In the third quarter these meetings included groups such as the Arizona Public Service Company, Arizona Telecommunications and Information Council, Arizona Office of Homeland Security, National Park Service and officials from the Navajo Nation and Pinal County.

In review of the Commission's second quarter expenditures, the Committee gave an unfavorable review to the purchase of two vehicles and the planned purchase of one additional vehicle. As a result, DPS and the PSCC have determined they will continue to utilize the two sedans that have already been purchased. However, they have decided to utilize existing DPS vehicles in place of the third vehicle they planned to purchase.

RS/ML:jb